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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XII, No. 11
July 22, 1988

INDUSTRIAL PRODUCTION FIGURES FOR MAY, 1988

Thus far we have been unable to find production results for May, 1988. Usually the Soviets produce these figures monthly, although there was a time in 1979 when the figures were also not published. That was a sign that the Soviet Union was experiencing economic difficulties. The absence of the figures for May may indicate the same thing, or it may simply be that the Soviet newspapers have been so filled with copy on the Summit Meeting and the Party Conference that there was no room. The more likely answer is that it was the first alternative, that economic results have not been particularly encouraging. We do expect the economic results to come out for the quarter, and should be able to report in the August newsletter the more recent production results.

BALANCE OF TRADE FIGURES FOR THE FIRST QUARTER OF 1988

Based on the first quarter results, it looks like the Soviets have decided to rely more on imports than they did last year. While in their trade with Western Europe and Japan, the imports increased only slightly more than their exports, the big difference was that they increased their purchases from the United States. That was mainly food products, but imports from the U.S. increased by about four hundred million rubles. Similarly, they increased their imports from Finland by a substantial amount. As a consequence, their trade deficit, both in hard currency and with Finland, increased from what it had been for the first quarter in 1987; although by no means is the credit deficit as large as it was in 1985 and 1986. The major beneficiary of the increased purchases by the Soviet Union after Finland and the United States was Germany and then Japan.

CORPORATE SPONSOR SERIES RESUMES

The Russian Research Center will resume its Corporate Sponsor Series on October 3, 1988, at the Harvard Faculty Club. This will mark our thirteenth year of holding such conferences.

We are pleased to announce a new sponsor for the seminar series this year. The John M. Olin Foundation has agreed to help us underwrite the cost. We want to thank the William and Mary Greve Foundation for its support these last few years.

Since the subject of joint ventures was of great interest last year, we thought it would be worthwhile to begin this year's session with joint ventures as well. We will begin with a historical perspective. We want to see how the concept of joint ventures evolved in the Soviet Union and to examine why the Soviets seem to be much more supportive of an idea that only a decade ago they were opposed to. In addition, we hope to compare the operation of joint ventures in China and the Soviet Union. Our speakers include several businessmen who have had experience in both countries. This conference should also enable us to gather more information for the databank on joint ventures that we hope to compile.

FOREIGN EXCHANGE RATES

Currency (per 100)	Rate on June 1
Austrian shilling	4.96
English pound	111.07
West German mark	34.89
Italian lira	.0471
U.S. dollar	59.99
French franc	10.38
Swiss franc	41.75
Japanese yen	.480

RUSSIAN RESEARCH NEWSLETTER c1988

BALANCE OF TRADE - 1st QUARTER OF 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988

(Million Rubles)

	EXPORTS FROM THE USSR								IMPORTS TO THE USSR							
	1981	1982	1983	1984	1985	1986	1987	1988	1981	1982	1983	1984	1985	1986	1987	1988
Austria	189	196	149	167	142	155	87	123	137	119	188	230	166	236	146	179
Belgium	105	280	230	194	178	143	151	181	125	198	152	142	149	156	96	121
Great Britain	148	219	227	307	252	246	303	341	300	169	208	183	166	150	159	175
Greece	99	121	36	84	107	47	41	69	30	37	35	32	27	18	10	19
Denmark	31	94	68	60	61	34	22	27	108	29	19	36	21	42	22	26
Spain	65	30	68	54	47	13	85	139	131	61	84	65	107	61	35	40
Italy	474	589	745	721	388	334	381	371	247	292	392	294	302	293	397	431
Netherlands	189	317	378	371	103	107	123	177	158	142	129	58	68	70	64	74
Norway	20	9	10	29	10	10	8	10	20	17	18	27	15	24	14	19
Germany	477	1001	851	1119	773	862	547	592	722	744	940	800	838	786	712	851
France	485	471	432	572	407	361	311	319	468	348	491	473	509	428	325	277
Switzerland	15	87	139	83	71	89	76	77	181	118	121	90	134	135	168	242
Sweden	30	66	116	129	83	66	78	101	105	101	72	67	79	65	68	69
Japan	201	187	196	195	208	230	207	236	609	801	654	520	570	577	351	432
SUBTOTAL	2528	3667	3645	4058	2830	2697	2420	2763	3391	3176	3503	3017	3151	3041	2567	2955
Sub-Balance of Trade									-863	+491	+142	+1041	-321	-344	-147	-192
U.S.A.	12	23	54	83	75	71	59	75	573	980	526	580	1005	507	103	528
Canada	17	7	4	3	6	3	6	6	137	148	243	86	84	124	110	55
Australia	2	2	1	5	1	3	1	2	252	130	202	137	202	206	108	98
New Zealand	1	2	1	1	--	1	1	1	50	109	88	22	23	36	18	24
Argentina	12	8	7	6	12	26	3	3	349	310	367	323	296	59	80	76
Brazil	2	44	4	42	24	21	16	5	138	148	93	161	57	92	23	28
TOTAL	2574	3753	3716	4225	2948	2822	2506	2855	4890	5001	5022	4326	4818	4065	3009	3764
Balance of Trade									-2316	-1248	-1306	-101	-1870	-1243	-503	-909
Finland	473	459	460	425	392	378	331	325	516	672	781	669	524	443	471	543
Including Finland	3047	4212	4176	4650	3340	3200	2837	3180	5406	5673	5803	4995	5342	4508	3480	4307
Balance of Trade with Finland									-2359	-1461	-1627	-345	-2002	-1308	-643	-1127

RUSSIAN RESEARCH CENTER
of HARVARD UNIVERSITY
and the JOHN M. OLIN FOUNDATION

JOINT VENTURES IN COMPARATIVE PERSPECTIVE:

THE SOVIET UNION AND CHINA

October 3, 1988

Harvard Faculty Club

9:45 a.m. **BACKGROUND**

Debra Spar, Department of Government, Harvard University
"Early Joint Ventures in the USSR"

Jerome Jacobsen, President, Economic Studies and former Vice Chairman, Bendix Corporation
"The Bendix Experience: Lessons for the Future"

Kurt Campbell, Assistant Director, Center for Science and International Affairs, Kennedy School of Government, Harvard University
"The Soviet Experience: The Selling of Gold and Diamonds"

11:15 a.m. **THE LAW ON JOINT VENTURES**

Sarah Carey, Heron, Burchette, Ruckert and Rothwell
"Negotiating a Joint Venture Contract with the Soviet Union"

Jerry Cohen, Paul, Weiss, Rifkin, Wharton & Garrison
"Joint Venture Contracts with the People's Republic of China"

12:30 p.m. Luncheon

1:45 p.m. **JOINT VENTURES IN THE USSR**

Alexander F. Shakai, Institute for Foreign Economic Relations, Foreign Economic Commission of the USSR *

Henry L. Sweat, Vice President, Honeywell, Inc.

William Zohlner, Vice President, Combustion Engineering

Frank Cutitta, Managing Director, International Market Services, IDG Communications (publisher of PC World)

James Giffen, Mercator Corporation, The Consortium

3:30 p.m. **JOINT VENTURES IN THE PRC**

Fan Fang, Office Administrator, Beijing Stone Group (joint venture with Mitsui) *

Jack Dorgan, Vice President, Occidental Petroleum

Donald Sorterup and Ernest De Bellis, General Manager of International Operations and Director of Joint Ventures, Foxboro Corporation

4:30 p.m. **PROSPECTS FOR THE FUTURE**

Marshall I.Goldman, Associate Director, Russian Research Center, Harvard University and Professor of Economics, Wellesley College

4:45 p.m. Adjourn

*subject to final confirmation

RUSSIAN RESEARCH CENTER

OF HARVARD UNIVERSITY
and the JOHN M. OLIN FOUNDATION

JOINT VENTURES IN COMPARATIVE PERSPECTIVE: THE SOVIET UNION AND CHINA

OCTOBER 3, 1988

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

Name: _____

Title or Position: _____

Company or Publication: _____

Mailing Address: _____

City: _____ State: _____ Zip Code: _____

Business Phone ( ) _____ Home Phone ( ) _____

Registration Fee: $200

Registration fee must be paid in advance. All checks should be made payable to The Russian Research Center. Russian Research Center affiliates are invited to attend the conference, but must register in advance.

Hotel Reservations:

Please indicate below if you would like us to make hotel reservations for you. A letter of confirmation will be mailed to you indicating the location and the nightly rate. The Russian Research Center will not guarantee rooms for participants.

Date (s): _____

Single ( ) Double ( )

Return application and registration fee to:

Catherine Reed
Russian Research Center
1737 Cambridge Street
Cambridge, MA 02138

For information:

(617) 495-4038

MARK G. FIELD

Sick Soviet medicine

Socialized medicine, the centerpiece of the Soviet welfare system, has been diagnosed as sick. Medical care in the Soviet Union, freely available to all, is attractive, but the care is poor, according to the Soviet press. The Soviet health service is scheduled for major surgery and an infusion of financial nutrients. The campaign for an overhaul is being led by the health ininister, Dr. Evgeny Chazov.

Soviet propaganda boasts about impressive quantitative achievements – more than 1.3 million physicians, more than 3.3 million hospital beds. According to Chazov, however, an unacceptable number of the physicians are incompetent and cannot perform the simplest medical procedures. Hospital beds are often no more than cots, without sufficient floor space. In the countryside, hospitals frequently lack running water and flush toilets.

The cause of the problems has been attributed to personal deficiencies of health personnel, not to the system itself or its design. This helps deflect anger from the service and the regime. The population is constantly told that a solicitous regime allocates huge amounts of money to health. Not so, says Chazov. The percentage of the national wealth going to health has steadily diminished in the last few years; it now stands at half of what is required for a service to be up to international standards.

A partial list of problems: physicians and nurses extort money and bribes for services for which they are paid by the state; medical equipment is scarce, often unusable because no one knows how to fix it; drugs are in short supply, and medical education is inadequate.

Consequently, there has been a rise in overall mortality and a decrease in life expectancy, particularly among males. The care of mothers and children is a national scandal, as is the recent increase in infant mortality, which is now two-and-a-half times that of the United States.

A resolution by the Communist Party and the government outlines five-year plans to guide the health service into the 21st century. If the past is any indication, it is expected that much of the plans will remain on paper. Why?

1. The major problems that affect the health system are also those of Soviet society. No real improvement in Soviet medicine may be possible unless paralleled by reforms in the larger society.

2. Welfare and health care, as with consumer goods, have taken second place in spite of the rhetoric. Defense and heavy industry get the lion's share of limited resources. This is likely to continue as long as the Soviet leaders feel threatened by outside enemies.

3. Even an increase in money allocated to the health system will not necessarily solve its problems; health authorities are often unable to purchase what they need because it is not available.

4. Health problems cannot be attributed to deficiencies in the health system alone. They are also the product of poor housing, inadequate nutrition, poverty and faulty sanitation.

Only the elite (a microscopic proportion of the population) enjoys "socialized medicine."

But at least Mikhail Gorbachev seems to have acknowledged the importance of the problem. One argument often used to urge the improvement of the health service is utilitarian rather than humanitarian – the huge production losses registered by the economy because of illness.

The principle of socialized medicine embodies an idealistic and progressive vision. Its realization in the Soviet Union, however, has been flawed. It remains to be seen whether the present resolution (and there have been many in the past) will be sufficient to turn the system around and heal it. The prognosis remains guarded.

Mark G. Field is a professor of sociology at Boston University and a fellow at the Russian Research Center at Harvard University.

Boston Globe, Saturday, July 16, 1988

Gorbachev Sought Reform and Didn't Seem to Get It

By MARSHALL I. GOLDMAN

Mikhail S. Gorbachev's party conference will not be soon forgotten. Whatever its concrete effect, there is no doubt that it was a radical departure from past procedures.

Gorbachev managed to open up the political process in an unprecedented way, and he undoubtedly hoped that there would be a parallel reaction in the economy. But with delegates unleashing pent-up complaints about food shortages, pollution, corruption, incompetence and political skulduggery, there must have been times when Gorbachev found himself asking just what he had set in motion. That would explain his desperate plea last Thursday to curb the complaining and political name-calling and to focus instead on plans for reform.

But when his message went unheeded and former Moscow party chief Boris Yeltsin and Politburo member Yegor Ligachev openly sought to destroy each other, Gorbachev evidently concluded that too much of a good thing would do nothing for his economic reforms. That may explain why Gorbachev seemed to end the conference so abruptly.

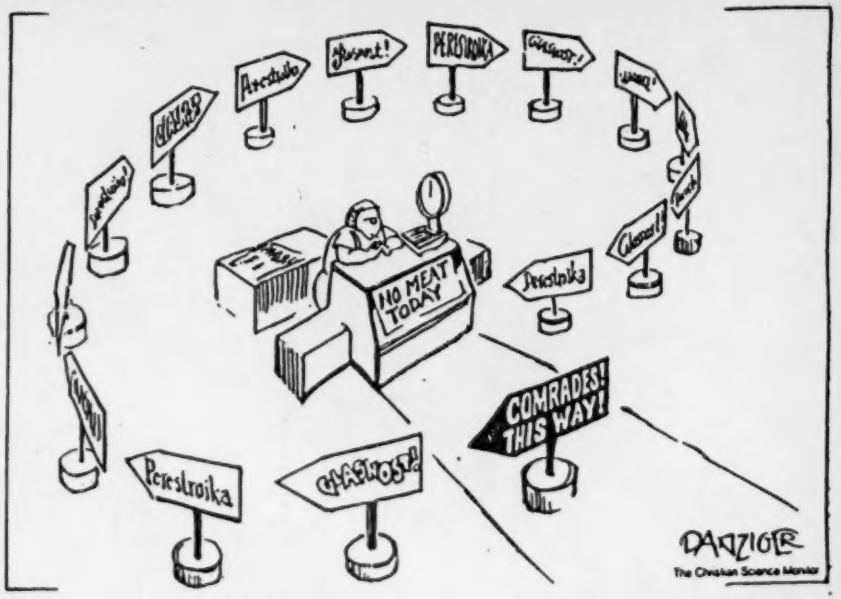
But if one of Gorbachev's goals was to provoke economic change, it is hard to see where he succeeded. He called for an increase in operating autonomy for Soviet peasants, even a form of private farming as well as for more private and cooperative business and manufacturing activity. All this in turn would mean curbing the role of ministries and Gosplan (the state planning commission), as well as a more meaningful price and market system.

But Gorbachev has been calling for such changes for several months. Nothing that happened at the conference would seem to have accelerated the process. Instead, caught up in the dynamic negativism, numerous delegates vented their anger and frustration over the economic inadequacies of the system. As a worker from the Ural Mountains put it at the conference, "The workers ask directly, where is *perestroika*? Nothing has changed in the food shops except for the addition of sugar rationing. Meat is still unavailable, as it has been for a long time, and now non-food consumer goods also disappear periodically."

Such protests certainly did not come as news to the average Soviet citizen who knows firsthand that Gorbachev has been unable to generate economic change. But to hear such shortcomings proclaimed repeatedly by conference delegates seemed to provide confirmation of the overall dimensions of the problem.

Even Gorbachev's economic advisers found themselves swept up in the process. Leonid Abalkin, the director of the Institute of Economics of the Academy of Sciences, complained that the rate of growth of the Soviet national income for the last two years was below what it was during the Brezhnev period.

Gorbachev was clearly hoping that the party conference would stimulate the process of economic transformation. But while he commanded Prime Minister Nikolai I. Ryzhkov to increase food supplies and Politburo member Nikolai P. Slyunkov to do the same for other consumer goods, Gorbachev did not accompany these words with deeds; there was no decree abolishing the collective farm or Gosplan. Instead, there is general acknowledgment that the enterprise law passed by the Soviet government in 1987 that was supposed to free the factories from ministerial control has been sabotaged by the bureaucrats. The Soviet cooperative law that was to encourage non-state production appears to have suffered the same fate.



The fate of these earlier reforms and the lack of any noticeable improvement in the day-to-day standard of living bodes poorly for any new economic initiative that Gorbachev may propose. It would be different if Gorbachev could point to an outpouring of increased consumer goods, as Deng Xiaoping can do in China. But even in China there is seething discontent because of the price increases of the sort that Gorbachev has called for. If the Chinese are upset by their price reforms, however, they have at least seen that their economic reforms can produce more goods. What will be the Soviet reaction when and if Gorbachev allows prices to rise and there still is no sign of a major improvement in consumer well-being?

It may be that because *glasnost* has made it possible for people to complain publicly about the country's economic shortcomings, their sense of frustration is made deeper than it might otherwise be. Yet for the recent visitor to Moscow the extent of the disappointment and the cynicism about the economic reforms are unmatched by anything since the mid-1960s. Gorbachev has bought about vast change in political discourse during his more than three years in power, but he has nothing to show for his efforts in terms of economic improvements. If the situation is anything like Abalkin and the delegates from the Urals suggest, the economic situation may have deteriorated.

A Soviet worker was asked on Soviet television what *perestroika* meant to him. "It means I work harder for less," he said. If Gorbachev is to succeed, he will have to reverse that equation. Unfortunately, nothing happened at the party conference to indicate that such changes will take place soon.

Marshall I. Goldman is a professor of economics at Wellesley College and the associate director of the Russian Research Center at Harvard.

Los Angeles Times, Thursday, July 7, 1988 / Part II

What lies ahead for Gorbachev?

MARSHALL I. GOLDMAN

MOSCOW – What a time it has been here. The city has already seen so much, but that was before perestroika and glasnost. The simultaneous occurrence of such far-reaching external and internal events is almost too much for Muscovites to absorb.

Even Pravda has been having a hard time. After devoting two to four pages a day to the meetings of President Ronald Reagan and General Secretary Mikhail Gorbachev, there is often not much left in the remaining two or three pages for the discussion of the internal restructuring.

But as enthusiastic as Muscovites have been about the Reagan visit, they are more preoccupied with glasnost and perestroika and especially their party conference later this month. When political maneuvering for this conference spilled out in front of the 5,000 foreign journalists, the charges and countercharges combined to create a sense of ferment seldom seen by Muscovites.

All this makes it hard for the foreign visitor to determine what here is real and what is what the Soviets call pokazuka or "pull the wool over the visitors' eyes."

In what appeared to be a washing of the political linen in the Western media, Boris Yeltsin complained bitterly to a BBC reporter about how shabbily he had been treated when he was forced to resign from the Politburo. He blames his ouster on his ideological opponent, Yegor Ligachev, widely regarded as a political conservative, especially when it comes to glasnost and democratization. Yeltsin also had some harsh words for Gorbachev because of what Yeltsin saw as Gorbachev's failure to stand by him. During the Nikita Khrushchev era, Khrushchev would publicly criticize other members of the Politburo but never in the Western media.

Yeltsin's behavior would seem like a natural extension of glasnost. Yet things are not always what they seem to be here. The day after making his comments to the BBC, Yeltsin claimed he was misquoted. Moreover he made this claim not in the Soviet press but on another Western program, ABC's "Good Morning America."

Admittedly Yeltsin did not volunteer his comments: the interviewer pressured him for a yes or no answer. In the Soviet Union that makes a big difference and clearly Yeltsin had come to realize that he should not be washing such private linen in front of the foreign press. But while fascinated with this new openness in political struggle, we are quickly reminded that Moscow is still Moscow when a representative from Soviet television demands the videotape of the full Yeltsin interview from ABC. When ABC refuses, the Soviet visitor reported that Gorbachev himself wanted to see the tape and when Gorbachev wants a full tape, Soviet television gives it to him.

These are not the only signs that glasnost and perestroika are incomplete. Those in favor of restructuring are disappointed that four or five of the most outspoken proponents of the restructuring process may not be delegates to the late June party conference. They were nominated by their local party groups, sometimes as part of a popular overriding of local leaders. It was surprising, therefore, when the district party units vetoed their subordinates and removed the supporters of restructuring. Those who were ousted may yet emerge as a type of "super-delegate," but their removalhas not inspired confidence in the process.

Many groups took advantage of the Western press to stage demonstrations. The plainclothes police, although clearly seething at this breach in their authority, allowed the protest to occur. Yet harsh words were addressed to the protesters. For example, the Jewish groups were warned that if they persisted there would be an old-fashioned Jewish pogrom on June 4. Even more disturbing, some of the Armenian protesters have been jailed, a reversal of the process which saw the release from prison of political protestors.

Weekly Moscow News has commissioned and published articles by the American Sovietoligist Richard Pipes. I wrote one on why Gorbachev's economic revisions are not working. They paid me an honorarium. At the same time, however, there still is self-censorship. For example, Reagan's speech is reported, but the reports omit his mention of Alexander Solzhenitsyn.

Muscovites are more relaxed than ever about meeting with foreigners. We were invited to two apartments for dinner and did not mute our voices in the hallway or in the elevator. Yet when asked if he would appear on an American TV talk show a young Soviet scholar said he would have to receive official permission from his institute before he could accept.

Gorbachev speaks incessantly of the need for perestroika and economic revival. There are now cooperative restaurants and private Soviet businessmen selling such things as their own manufactured jeans, jackets and pants. However, the prices are far beyond the reach of all but a few Muscovites. This causes enormous resentment, just as does the continuous shortage of meat, fruit and vegetables. Asked what he thought of perestroika one man responded, "It means more work and fewer goods."

For Gorbachev the challenge is clear. He has shown he can produce glasnost – it's not perfect but far more impressive than many thought possible. Now his task is to produce the perestroika which so far is suffering badly.

There are those who are skeptical that he can do it. A Muscovite goes into a bar and asks for a pitcher of beer. "That will be a ruble," says the bartender.

"But it was only 50 kopeks a few months ago."

"Ah, but now you have to pay 50 kopeks for glasnost," responds the bartender.

"OK, I like glasnost, here's the ruble." But then the bartender gives him back 50 kopeks change. "What is this?" asked the Muscovite. "You told me that I had to pay 50 kopeks for glasnost."

"Yes," said the bartender, "but we don't have any beer."

Marshall I. Goldman is professor of economics at Wellesley College and associate director of Russian Research Center at Harvard University.

Boston Globe, Sunday, June 5, 1988